TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

CORRECTED FISCAL MEMORANDUM

SB 193 – HB 331

May 1, 2017

SUMMARY OF ORIGINAL BILL: Exempts from the Hall Income Tax (HIT), for tax years beginning on or after January 1, 2017, any taxpayer 100 years of age or older, or any taxpayers who file a joint return and either spouse is 100 years of age or older.

CORRECTED FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact – $60,800/FY17-18
$45,600/FY18-19
$30,400/FY19-20
$15,200/FY20-21

Decrease Local Revenue – Net Impact – $32,500/FY17-18
$24,400/FY18-19
$16,300/FY19-20
$8,100/FY20-21

SUMMARY OF AMENDMENT (007076): Deletes and replaces language of the original bill to establish that the proposed HIT exemption will apply to tax years beginning on or after January 1, 2018, rather than January 1, 2017.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

On April 10, 2017, a fiscal memorandum was issued estimating a fiscal impact as follows:

Decrease State Revenue – Net Impact – $76,000/Each Year FY18-19 through FY21-22

Decrease Local Revenue – Net Impact – $40,600/Each Year FY18-19 through FY21-22

This fiscal impact is being updated to account for the Hall Income Tax changes imposed by the IMPROVE Act. The estimated impact is:

(CORRECTED)
Decrease State Revenue – Net Impact – $45,600/FY18-19
$30,400/FY19-20
$15,200/FY20-21

Decrease Local Revenue – Net Impact – $24,400/FY18-19
$16,300/FY19-20
$8,100/FY20-21

Corrected assumptions for the bill as amended:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a five percent tax on income derived from dividends on stock or from interest on bonds.
- Pursuant to Tenn. Code Ann. § 67-2-124, it is the legislative intent that the tax be reduced by one percent annually through enactments of general bills; the tax shall be eliminated for tax years beginning on or after January 1, 2022.
- However, the recently enacted IMRPOVE Act decreased the HIT rate to four percent for tax years beginning on or after January 1, 2017, three percent for tax years beginning on or after January 1, 2018, two percent for tax years beginning on or after January 1, 2019, one percent for tax years beginning on or after January 1, 2020, and zero percent for tax years beginning on or after January 1, 2021.
- Given the proposed HIT exemption shall be applied to tax years beginning with tax year 2018, and assuming that 100 percent of HIT owed for tax year 2018 is collected no later than June 30, 2019, the first year impacted by this bill will be FY18-19. This collection pattern is assumed to remain constant into perpetuity. Therefore, the proposed exemption will impact each fiscal year FY18-19 through FY20-21, as the HIT will be eliminated for tax years that begin on or after January 1, 2021 (FY21-22 and subsequent years).
- The Department of Revenue (DOR) reports that, based on a query of HIT taxpayer and driver license data for tax years 2013 and 2014, the average number of taxpayers that are 100 years of age or older is 120. The average total HIT collection from these taxpayers is $146,918. The taxable base is estimated to be $2,448,633 ($146,918 / 6.0% HIT rate for tax years 2013 and 2014).
- The HIT collections from these taxpayers under current law are estimated to be: $73,459 in FY18-19 ($2,448,633 x 3.0% HIT rate for 2018); $48,973 in FY19-20 ($2,448,633 x 2.0% HIT rate for 2019); and $24,486 in FY20-21 ($2,448,633 x 1.0% HIT rate for 2020).
- Based on apportionments of HIT collections for the last three fiscal years (FY13-14, FY14-15, and FY15-16), it is estimated that the state retains 65.44 percent of HIT revenue and local governments are apportioned 34.56 percent.
- The decrease in HIT revenue is estimated to be: $48,072 for the state ($73,459 x 65.44%) and $25,387 for the local government ($73,459 x 34.56%) in FY18-19; $32,048 for the state ($48,973 x 65.44%) and $16,925 for the local government ($48,973 x 34.56%) in FY19-20; and $16,024 for the state ($24,486 x 65.44%) and $8,462 for the local government ($24,486 x 34.56%) in FY20-21.
- Fifty percent of tax savings will be spent in the economy on sales-taxable goods and services. The amount of tax savings that will be spent in the economy on such goods and services is estimated to be: $36,730 in FY18-19 ($73,459 x 50%); $24,486 in FY19-20 ($48,973 x 50%); and $12,243 in FY20-21 ($24,486 x 50%).

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net increase in state sales tax revenue is estimated to be: $2,478 in FY18-19 [($36,730 x 7.0%) – ($36,730 x 7.0% x 3.617%)]; $1,652 in FY19-20 [($24,486 x 7.0%) – ($24,486 x 7.0% x 3.617%)]; and $826 in FY20-21 [($12,243 x 7.0%) – ($12,243 x 7.0% x 3.617%)].
- The total increase in local sales tax revenue is estimated to be: $1,011 in FY18-19 [($36,730 x 2.5%) + ($36,730 x 7.0% x 3.617%)]; $674 in FY19-20 [($24,486 x 2.5%) + ($24,486 x 7.0% x 3.617%)]; and $337 in FY20-21 [($12,243 x 2.5%) + ($12,243 x 7.0% x 3.617%)].
- The net decrease in state revenue as a result of this bill is estimated to be: $45,594 in FY18-19 ($48,072 - $2,478); $30,396 in FY19-20 ($32,048 - $1,652); and $15,198 in FY20-21 ($16,024 - $826).
- The net decrease in local revenue each year as a result of this bill is estimated to be: $24,376 in FY18-19 ($25,387 - $1,011); $16,251 in FY19-20 ($16,925 - $674); and $8,125 in FY20-21 ($8,462 - $337).
- Any increase in expenditures for the Department to effectuate the proposed exemption will be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

/bs